

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Middleville	County Barry
Fiscal Year End 12/31/06	Opinion Date May 29, 2007	Date Audit Report Submitted to State June 25, 2007	

We affirm that:

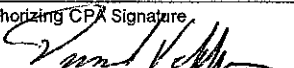
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not considered necessary	
Other (Describe)	<input checked="" type="checkbox"/>	Internal control communication	
Certified Public Accountant (Firm Name) Siegfried Crandall, PC		Telephone Number (269) 381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
Zip 49002			
Authorizing CPA Signature 		Printed Name Daniel L. Veldhuizen, CPA	License Number 1101020724

Village of Middleville
Barry County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended December 31, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Village of Middleville
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Village of Middleville's (the Village) financial performance provides a narrative overview of the Village's financial activities for the fiscal year ended December 31, 2006. The Governmental Accounting Standards Board's (GASB) Statement No. 34 requires management to prepare a straightforward Management Discussion and Analysis (MD&A) of their local government's financial health during the past year. The reader should use this analysis along with the annual report to gain a complete picture of the Village of Middleville for 2006.

FINANCIAL HIGHLIGHTS

- Net assets is the amount by which the Village's assets exceeded its liabilities. Net assets totaled \$8,680,426 at December 31, 2006. The unrestricted portion of this amount, \$1,773,346 (20 percent), is available to be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets increased by \$793,926 (10 percent) as a result of this year's activities. Net assets of the governmental and business-type activities increased by \$406,018 and \$397,908, respectively.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$159,264, which represents 14 percent of the actual total General Fund expenditures for the current fiscal year.
- *Deficits in the Major Street Fund and the Downtown Development Authority (DDA)*
The fund deficit as of December 31, 2006, in the Major Street Fund was \$307,963. The DDA has a deficit of \$135,795 at December 31, 2006.
- *Governmental activities*
The Village continued property tax rate responsibility by reducing its operating millage from 11.0706 to 10.9986. Because of continued new growth in taxable value in the Village, property tax revenues continue to increase while resident taxpayers only absorb the average rate of inflation due to Proposal A. This increase in revenues allows the General Fund to absorb increases in operating costs and continue to transfer funds to the Local Street Fund (\$100,000 in 2006) to continue the Street Improvement Program.
- *Business-type activities*
The Village's multi-year utility rate increase policy for commodity charges and connection fees keeps the utility fund revenues steady and avoids large increases all at once. The continued policy of new development paying for public water and sewer improvements allows the remaining resources to be used for repair and replacement of existing off-site infrastructure that serves these new developments.

Overview of the financial statements

The Village's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents additional information. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Village, reporting the Village's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide financial statements

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Village's net assets and how they have changed. Net assets (the difference between the Village's assets and liabilities) are one way to measure the Village's financial health, or position.

- Over time, increases or decreases in the Village's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Village, you need to consider additional nonfinancial factors such as changes in the Village's property tax base and the condition of the Village's capital assets.

The government-wide financial statements are divided into three categories:

- *Governmental activities* - Most of the Village's basic services are included here, such as police protection and general government. Property taxes and state shared revenue finance most of these activities.

Government-wide financial statements (Continued)

- *Business-type activities* - The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's sewer and water systems are reported here.
- *Component units* - The Village includes two other entities in its report - the Downtown Development Authority and the Local Development Finance Authority. Although legally separate, these "component units" are important because the Village is financially accountable for them.

Fund financial statements

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law.
- The Village Council establishes other funds to control and manage money for particular purposes (like street maintenance) to show that it is properly using certain revenues (like state grants collected for the street funds).

The Village has two kinds of funds:

- **Governmental funds.** Most of the Village's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.

The General Fund is the most diverse governmental fund. The General Fund accounts for general administration, accounting, planning and zoning, parks and recreation, sidewalks, and other general government activities. Law enforcement is also accounted for in this fund.

The Major (5.5 miles) and Local (7.84 miles) street funds account for improvements to and preservation of the 13.34 miles of streets in the Village. It should be noted that state revenues pay for Major Street activities, but Local Street activities must be subsidized by transfers from the General Fund.

The Drug Enforcement Law Fund accounts for the seizure of illegal drug monies, which are restricted. They can only be used for drug enforcement purposes. The Drug Enforcement Law Fund is a nonmajor fund.

- Proprietary funds. Services for which the Village charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Village's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows.

The Sewer Fund is an important fund of the Village as it records the revenues from charges to the sewer customers and receipts in the form of connection fees made by developers that all pay for the maintenance of the sewer system and wastewater treatment plant. Middleville is very flat and needs to use several lift stations to move wastewater to the treatment plant.

The Water Fund records revenues from charges to the water customers and receipts from developers in the form of connection fees to pay for the maintenance of the water system, wells, a tower, and two booster stations.

The Village uses an internal service fund (the other type of proprietary fund) to report activities that provide services for the Village's other programs and activities. The Village's internal service fund is its Motor Vehicle Equipment Fund. This fund rents a fleet of equipment to all the other funds at rates established by the state.

Component units

The Downtown Development Authority and the Local Development Finance Authority, although legally separate, are included in the Village's financial report because the Village is financially accountable for them.

The Local Development Finance Authority (LDFA) was created by the Village to capture property taxes from certain taxing units from a specific district within the Village to finance public improvements to that district. This entity has completed most of its plan by renovating the streets that serve its district.

The Downtown Development Authority (DDA) was also created by the Village to capture property taxes from certain taxing units from a specific district within the Village to finance public improvements to that district.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Net assets. The Village's *combined* net assets increased by 8 percent between December 31, 2005 and 2006. While the Village reports unrestricted net assets under both governmental and business-type activities, the unrestricted net assets of the business-type activities cannot be used to make up any net asset deficit in governmental activities.

Condensed financial information
Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Other assets	\$ 618,567	\$ 972,628	\$2,844,327	\$2,882,818	\$3,462,894	\$3,855,446
Capital assets	<u>2,083,983</u>	<u>1,302,115</u>	<u>6,563,236</u>	<u>5,351,797</u>	<u>8,647,219</u>	<u>6,653,912</u>
Total assets	<u>2,702,550</u>	<u>2,274,743</u>	<u>9,407,563</u>	<u>8,234,615</u>	<u>12,110,113</u>	<u>10,509,358</u>
Current liabilities	76,871	55,082	220,290	42,776	297,161	97,858
Long-term debt	<u>-</u>	<u>-</u>	<u>3,132,526</u>	<u>2,525,000</u>	<u>3,132,526</u>	<u>2,525,000</u>
Total liabilities	<u>76,871</u>	<u>55,082</u>	<u>3,352,816</u>	<u>2,567,776</u>	<u>3,429,687</u>	<u>2,622,858</u>
Net assets:						
Invested in capital assets, net of related debt	2,083,983	1,302,115	3,481,405	2,884,734	5,565,388	4,186,849
Restricted	158,247	84,812	1,183,445	1,211,106	1,341,692	1,295,918
Unrestricted	<u>383,449</u>	<u>832,734</u>	<u>1,389,897</u>	<u>1,570,999</u>	<u>1,773,346</u>	<u>2,403,733</u>
Total net assets	<u>\$2,625,679</u>	<u>\$2,219,661</u>	<u>\$6,054,747</u>	<u>\$5,666,839</u>	<u>\$8,680,426</u>	<u>\$7,886,500</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in net assets. The Village's total revenues for 2006 were \$3,006,250. More than 25 percent of the Village's revenues come from property taxes and approximately 20 percent comes from public utility fees.

The total cost of all the Village's programs for 2006, covering a wide range of services, totaled \$2,212,324. Nearly 33 percent of the Village's costs relate to the provision of utility services. Governmental public works costs represent approximately 28 percent of all costs while general government costs account for 21 percent of the total costs.

Condensed financial information
Changes in Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program revenues:						
Charges for services	\$ 9,833	\$ 2,065	\$ 587,527	\$594,223	\$ 597,360	\$ 596,288
Operating grants and contributions	243,433	221,985	-	-	243,433	221,985
Capital grants and contributions	620,168	-	431,769	317,320	1,051,937	317,320
General revenues:						
Property taxes	748,277	747,155	-	-	748,277	747,155
State shared revenue	237,469	239,264	-	-	237,469	239,264
Other	30,696	57,624	97,078	62,679	127,774	120,303
Total revenues	1,889,876	1,268,093	1,116,374	974,222	3,006,250	2,242,315
Expenses:						
Legislative	20,164	20,233	-	-	20,164	20,233
General government	455,827	310,731	-	-	455,827	310,731
Public safety	244,533	216,790	-	-	244,533	216,790
Public works	623,055	403,067	-	-	623,055	403,067
Community and economic development	90,172	78,922	-	-	90,172	78,922
Culture and recreation	50,107	44,572	-	-	50,107	44,572
Sewer	-	-	513,586	471,239	513,586	471,239
Water	-	-	214,880	229,977	214,880	229,977
Total expenses	1,483,858	1,074,315	728,466	701,216	2,212,324	1,775,531
Increase in net assets	\$ 406,018	\$ 193,778	\$ 387,908	\$273,006	\$ 793,926	\$ 466,784

Governmental activities. Governmental activities increased the Village's net assets by \$406,018 in 2006 compared to \$193,778 in 2005. The increase can be explained by the aggressive street rebuilding program and the use of State grants, approximating \$490,000, to leverage local investment.

The following table shows the costs of the Village's three largest programs, as well as the net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the burden that was placed on the Village's taxpayers by each of these functions.

The total cost of all governmental activities was \$1,483,858.

However, the amount that our taxpayers paid for these activities through general revenues was \$610,424. Some of the cost was paid by:

- Those who directly benefited from the programs (\$9,833), or
- Other governments that subsidized certain programs with grants and contributions (\$243,433).

The Village paid for the \$610,424 "public benefit" portion with \$748,277 in property taxes and with other general revenues, such as state shared revenue and interest income.

	<i><u>Total cost of services</u></i>	<i><u>Net cost of services</u></i>
Public works	\$ 623,055	\$ (198,864)
General government	455,827	447,294
Public safety	244,533	243,233
Other	<u>160,443</u>	<u>118,761</u>
Total	<u>\$ 1,483,858</u>	<u>\$ 610,424</u>

Business-type activities. Business-type activities increased the Village's net assets by \$387,908. Both the Sewer and Water funds generated an increase in net assets primarily due to the receipt of state grants to finance infrastructure projects (\$169,062) and the collection of a substantial amount of connection fees (\$64,273) in 2006. However, the Sewer Fund experienced an operating loss (\$67,752) because current charges do not provide sufficient funds to cover current operating costs.

Component unit activities

- DDA - This entity is self-funded by the use of captured tax revenues in accordance with state law and once capital improvements are made, they become assets of the Village. The DDA has sufficient funds to sponsor downtown events and spend brick and mortar dollars to spur investment in the District.
- LDFA - This entity is self-funded by the use of captured tax revenues in accordance with state law and once capital improvements are made they become assets of the Village. The growth at Metaldyne will bring in additional captured taxes to finance future projects.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

Governmental funds. As of December 31, 2006, the Village's governmental funds reported total fund balances of \$234,953, a decrease of \$405,902 compared to last year's balances. The General Fund experienced a decrease (\$190,392) primarily due to a transfer to the Local Street Fund of \$100,000 in support of street preservation and maintenance costs. In addition, these other changes in fund balances should be noted:

- The fund balance of the Major Street Fund decreased by \$311,673, due to current street project costs, leaving a deficit balance of \$307,963.
- The fund balance of the Local Street Fund increased by \$95,519, reflecting excess amounts transferred in from the General Fund in support of current expenditures.

The General Fund is the chief operating fund of the Village. At the end of the fiscal year, unreserved fund balance was \$159,264, which represents 14 percent of the actual total General Fund expenditures for the current fiscal year. The General Fund has the greatest flexibility in that it provides a variety of services to the residents. Property taxes compose 70% of the General Fund revenues, while state shared revenues compose 25%. Because of the new growth in the Village, cuts in state shared revenues have been offset. Management's goal is to increase the unrestricted cash balance of the fund to an amount representing 25 percent of expenditures over the next five years. The adoption of a 1.0 highway millage in 2007, under MCL 69.2, will allow this new tax to help continue to finance street improvements and reduce the transfer of funds from the General Fund to finance the street improvement program. The General Fund millage will be reduced from 10.9986 to 10.00 mills.

Proprietary funds. The Water Fund operating revenues covered operating expenses in 2006. The total assets of the fund are \$2,733,988 of which cash is \$300,298. The total liabilities are \$986,953 leaving net assets of \$1,747,035. The Water Fund made system improvements, put in one new production well, and is building a new water tower. These improvements were financed by debt and require a rate increase. Continued growth brings in connection fees that increase the available cash to offset some of the future capital needs for the system improvements.

The Sewer Fund operating revenues covered operating expenses in 2006. The total assets of this fund are \$6,673,575 primarily reflected in its treatment facility. The total liabilities of the Sewer Fund are \$2,365,863, which is primarily the debt to be paid off, leaving net assets of \$4,307,712. The current debt charge to the customers of the system is insufficient to pay the annual debt service costs and is supplemented by developer connection fees. Continued repair/replacement of the underground system creating capacity forestalls the need to expand the treatment facility, which is designed to have "cells" added to it instead of building a whole new plant.

Internal Service The Motor Vehicle Equipment Fund (MVEF) pays for its annual operational expenses by rates charged to other funds for the use of its assets. The Village has recently compiled a Capital Improvement Plan (CIP) so that major purchases can be scheduled over time.

General Fund budgetary highlights

The difference between the original budget and the final amended budget for expenditures was an increase of \$40,753, primarily due to small year-end expenditures not included in the original budget. Actual revenues were \$234,794 less than the total amount budgeted because property tax revenues were overstated. Actual expenditures were \$50,404 more than the total budgeted expenditures due to acquisition of a key parcel at the Main intersection of the Village.

Capital assets and debt administration*Capital assets*

The Village's investment in capital assets for its governmental and business-type activities as of December 31, 2006, amounts to \$8,647,219 (net of accumulated depreciation). This investment includes a broad range of assets including land, equipment, buildings, and sewer and water facilities. The increase in the Village's net investment in capital assets for the current fiscal year was \$1,385,781, or approximately 34% percent.

	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
Infrastructure	\$ 1,413,602	\$ 5,259,258	\$ 6,672,860
Buildings and improvements	486,218	-	486,218
Equipment	146,663	149,711	296,374
Construction in progress	-	1,011,118	1,011,118
Land	<u>37,500</u>	<u>143,149</u>	<u>180,649</u>
Total	<u>\$ 2,083,983</u>	<u>\$ 6,563,236</u>	<u>\$ 8,647,219</u>

Major capital asset events during the current fiscal year included the following:

- 2006 Street Improvement Projects: sewer system additions amounted to \$112,632, water system additions were \$31,767, and construction in progress at year-end amounted to \$1,011,118; street infrastructure costs totaling \$827,520 were incurred.

More detailed information about the Village's capital assets is presented in Note 5 of the basic financial statements.

Capital assets and debt administration (Continued)

Debt administration

At the end of the fiscal year, the Village had total long-term liabilities outstanding in the amount of \$3,132,526, which represents a net increase of \$607,526 or 24 percent. All debt is backed by the full faith and credit of the Village and is financed by specific user fees.

During the year ended December 31, 2006, the Village decreased its long-term liabilities through the payment of principal totaling \$205,000. All scheduled debt payments were made in a timely manner in 2006. The Village also issued new debt in the amount of \$812,526 to finance several water construction projects.

State statutes limit the amount of general obligation debt the Village can issue to 10 percent of its total state equalized assessed value of property. The Village's total debt (\$3,132,526) is significantly lower than the current state-imposed limit of \$10,579,173.

More detailed information about the Village's long-term liabilities is presented in Note 9 of the basic financial statements.

Economic condition and outlook

The State of Michigan continues to suffer from its reliance upon the automotive industry as a key job provider. The Village is fortunate that its largest employer, and also the County's largest employer, is embarking on a major employee culture shift by negotiating a new seven-year contract that will allow for technology upgrades and employee skill training. The result will continue to guarantee the Village a strong local property tax and employment base. Continued reduction in state shared revenues is expected as the State changes its focus to the life sciences. The challenge for the Village is to accommodate the growing "baby boomer" generation and the demands it will place on governmental services while being able to tap into the energy and experience of the new retirees to help serve the community on a voluntary or part-time basis.

Contacting the Village's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Ron Howell, Village Manager
Village of Middleville
100 East Main Street
Middleville, Michigan 49333-0069

Phone: (269) 795-3385

INDEPENDENT AUDITORS' REPORT

**Village Council
Village of Middleville, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of the Village of Middleville, Michigan, as of December 31, 2006, and for the year then ended, which collectively comprise the Village of Middleville, Michigan's financial statements, as listed in the contents. These financial statements are the responsibility of the Village of Middleville, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of the Village of Middleville, Michigan, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, budgetary comparison schedules, and the schedule of funding progress of the employee retirement system, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Middleville, Michigan's basic financial statements. The accompanying supplementary data, as listed in the contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

May 29, 2007

Village of Middleville
STATEMENT OF NET ASSETS
December 31, 2006

	<u>Primary government</u>			<u>Component units</u>	
	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>	<u>Local Development Finance Authority</u>	<u>Downtown Development Authority</u>
ASSETS					
Current assets:					
Cash	\$ 459,421	\$ 1,091,288	\$ 1,550,709	\$ 142,734	\$ 91,977
Receivables	240,824	444,371	685,195	-	-
Internal balances	(307,083)	307,083	-	-	-
Advance to component unit	28,182	-	28,182	-	-
Total current assets	<u>421,344</u>	<u>1,842,742</u>	<u>2,264,086</u>	<u>142,734</u>	<u>91,977</u>
Noncurrent assets:					
Cash - restricted	-	708,927	708,927	-	-
Receivables	-	241,963	241,963	-	-
Advance to component unit	197,223	-	197,223	-	-
Capital assets not being depreciated	37,500	1,154,267	1,191,767	-	-
Capital assets, net of depreciation	2,046,483	5,408,969	7,455,452	-	-
Deferred charges, net	-	50,695	50,695	-	-
Total noncurrent assets	<u>2,281,206</u>	<u>7,564,821</u>	<u>9,846,027</u>	<u>-</u>	<u>-</u>
Total assets	<u>2,702,550</u>	<u>9,407,563</u>	<u>12,110,113</u>	<u>142,734</u>	<u>91,977</u>
LIABILITIES					
Current liabilities:					
Payables	76,871	220,290	297,161	2,254	2,367
Advance from primary government	-	-	-	-	28,182
Notes payable	-	235,000	235,000	-	-
Total current liabilities	<u>76,871</u>	<u>455,290</u>	<u>532,161</u>	<u>2,254</u>	<u>30,549</u>
Noncurrent liabilities:					
Advance from primary government	-	-	-	-	197,223
Notes payable	-	2,897,526	2,897,526	-	-
Total noncurrent liabilities	<u>-</u>	<u>2,897,526</u>	<u>2,897,526</u>	<u>-</u>	<u>197,223</u>
Total liabilities	<u>76,871</u>	<u>3,352,816</u>	<u>3,429,687</u>	<u>2,254</u>	<u>227,772</u>
NET ASSETS					
Invested in capital assets, net of related debt	2,083,983	3,481,405	5,565,388	-	-
Restricted:					
Public works	144,557	-	144,557	-	-
Public safety	13,690	-	13,690	-	-
Debt service	-	983,012	983,012	-	-
Capital projects	-	200,433	200,433	-	-
Unrestricted (deficit)	<u>383,449</u>	<u>1,389,897</u>	<u>1,773,346</u>	<u>140,480</u>	<u>(135,795)</u>
Total net assets	<u>\$ 2,625,679</u>	<u>\$ 6,054,747</u>	<u>\$ 8,680,426</u>	<u>\$ 140,480</u>	<u>\$ (135,795)</u>

See notes to the financial statements

Village of Middleville
STATEMENT OF ACTIVITIES
Year ended December 31, 2006

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities:				
Legislative	\$ 20,164	\$ -	\$ -	\$ -
General government	455,827	8,533	-	-
Public safety	244,533	1,300	-	-
Public works	623,055	-	201,751	620,168
Community and economic development	90,172	-	41,682	-
Culture and recreation	50,107	-	-	-
Total governmental activities	<u>1,483,858</u>	<u>9,833</u>	<u>243,433</u>	<u>620,168</u>
Business-type activities:				
Sewer	513,586	349,184	-	278,825
Water	<u>214,880</u>	<u>238,343</u>	<u>-</u>	<u>152,944</u>
Total business-type activities	<u>728,466</u>	<u>587,527</u>	<u>-</u>	<u>431,769</u>
Total primary government	<u>\$ 2,212,324</u>	<u>\$ 597,360</u>	<u>\$ 243,433</u>	<u>\$ 1,051,937</u>
Component units:				
Local Development Finance Authority	\$ 136,530	\$ -	\$ -	\$ -
Downtown Development Authority	<u>39,449</u>	<u>843</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 175,979</u>	<u>\$ 843</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues
Property taxes
State shared revenue
Unrestricted interest earnings
Miscellaneous

Total general revenues

Change in net assets

Net assets (deficit) - beginning

Net assets (deficit) - ending

Net (expenses) revenues and changes in net assets				
Primary government			Component units	
Governmental activities	Business-type activities	Totals	Local Development Finance Authority	Downtown Development Authority
\$ (20,164)		\$ (20,164)		
(447,294)		(447,294)		
(243,233)		(243,233)		
198,864		198,864		
(48,490)		(48,490)		
(50,107)		(50,107)		
(610,424)		(610,424)		
	\$ 114,423	114,423		
	176,407	176,407		
	290,830	290,830		
(610,424)	290,830	(319,594)		
			\$ (136,530)	\$ -
			-	(38,606)
			(136,530)	(38,606)
748,277	-	748,277	254,221	100,519
237,469	-	237,469	-	-
30,696	97,078	127,774	4,783	3,186
-	-	-	-	6,831
1,016,442	97,078	1,113,520	259,004	110,536
406,018	387,908	793,926	122,474	71,930
2,219,661	5,666,839	7,886,500	18,006	(207,725)
\$ 2,625,679	\$ 6,054,747	\$ 8,680,426	\$ 140,480	\$ (135,795)

25%

See notes to the financial statements

Village of Middleville
BALANCE SHEET - governmental funds
December 31, 2006

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
Cash	\$ 250	\$ -	\$ 151,287	\$ 151,537
Receivables	212,983	20,224	7,617	240,824
Long-term advance to component unit	<u>225,405</u>	<u>-</u>	<u>-</u>	<u>225,405</u>
Total assets	<u>\$ 438,638</u>	<u>\$ 20,224</u>	<u>\$ 158,904</u>	<u>\$ 617,766</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 48,757	\$ 26,316	\$ 657	\$ 75,730
Due to other funds	<u>5,212</u>	<u>301,871</u>	<u>-</u>	<u>307,083</u>
Total liabilities	<u>53,969</u>	<u>328,187</u>	<u>657</u>	<u>382,813</u>
Fund balances (deficit):				
Reserved for long-term advance	225,405	-	-	225,405
Unreserved, undesignated	159,264	(307,963)	-	(148,699)
Unreserved, undesignated reported in nonmajor - special revenue funds	<u>-</u>	<u>-</u>	<u>158,247</u>	<u>158,247</u>
Total fund balances (deficit)	<u>384,669</u>	<u>(307,963)</u>	<u>158,247</u>	<u>234,953</u>
Total liabilities and fund balances	<u>\$ 438,638</u>	<u>\$ 20,224</u>	<u>\$ 158,904</u>	<u>\$ 617,766</u>

Amounts reported for *governmental activities* in the statement of net assets are different because:

Total fund balances - all governmental funds \$ 234,953

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 1,731,980

An internal service fund is used by management to charge costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in *governmental activities* in the statement of net assets. 658,746

Net assets of *governmental activities* (page 5) \$ 2,625,679

See notes to the financial statements

Village of Middleville**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCES - governmental funds**

Year ended December 31, 2006

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES				
Property taxes	\$ 748,277	\$ -	\$ -	\$ 748,277
State grants	265,677	625,712	48,631	940,020
Charges for services	31,700	-	-	31,700
Licenses and permits	1,300	-	-	1,300
Interest and rentals	12,797	-	5,712	18,509
Other	8,533	-	-	8,533
Total revenues	<u>1,068,284</u>	<u>625,712</u>	<u>54,343</u>	<u>1,748,339</u>
EXPENDITURES				
Legislative	20,164	-	-	20,164
General government	432,446	-	-	432,446
Public safety	244,533	-	-	244,533
Public works	289,923	937,385	58,180	1,285,488
Community and economic development	90,172	-	-	90,172
Culture and recreation	51,809	-	-	51,809
Capital outlay	29,629	-	-	29,629
Total expenditures	<u>1,158,676</u>	<u>937,385</u>	<u>58,180</u>	<u>2,154,241</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(90,392)</u>	<u>(311,673)</u>	<u>(3,837)</u>	<u>(405,902)</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	100,000	100,000
Transfer out	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(190,392)</u>	<u>(311,673)</u>	<u>96,163</u>	<u>(405,902)</u>
FUND BALANCES - BEGINNING	<u>575,061</u>	<u>3,710</u>	<u>62,084</u>	<u>640,855</u>
FUND BALANCES (DEFICIT) - ENDING	<u>\$ 384,669</u>	<u>\$ (307,963)</u>	<u>\$ 158,247</u>	<u>\$ 234,953</u>

See notes to the financial statements

Village of Middleville

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended December 31, 2006

Reconciliation of the statement of revenues, expenditures, and changes
in fund balances to the statement of activities:

Net change in fund balances - total governmental funds (page 8)	\$ (405,902)
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Amounts reported for *governmental activities* in the statement of
activities are different because:

Governmental funds report capital outlays as expenditures. However, in the
statements of activities the costs of those assets are allocated over their
estimated useful lives as depreciation expense.

Assets acquired	827,521
Provision for depreciation	(30,778)

Decrease in prepaid expenses.	(10,238)
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The net revenue of the internal service fund is reported with <i>governmental activities</i> .	<u>25,415</u>
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Change in net assets of <i>governmental activities</i> (page 6)	<u>\$ 406,018</u>
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See notes to the financial statements

Village of Middleville
STATEMENT OF NET ASSETS - proprietary funds
December 31, 2006

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
ASSETS				
Current assets:				
Cash	\$ 790,990	\$ 300,298	\$ 1,091,288	\$ 307,884
Receivables	383,344	61,027	444,371	-
Due from other funds	307,083	-	307,083	-
Total current assets	<u>1,481,417</u>	<u>361,325</u>	<u>1,842,742</u>	<u>307,884</u>
Noncurrent assets:				
Cash - restricted	684,549	24,378	708,927	-
Receivables	241,963	-	241,963	-
Capital assets not being depreciated	33,780	1,120,487	1,154,267	-
Capital assets, net of depreciation	4,181,171	1,227,798	5,408,969	352,003
Deferred charges, net of amortization	50,695	-	50,695	-
Total noncurrent assets	<u>5,192,158</u>	<u>2,372,663</u>	<u>7,564,821</u>	<u>352,003</u>
Total assets	<u>6,673,575</u>	<u>2,733,988</u>	<u>9,407,563</u>	<u>659,887</u>
LIABILITIES				
Current liabilities:				
Payables	45,863	174,427	220,290	1,141
Notes payable	225,000	10,000	235,000	-
Total current liabilities	<u>270,863</u>	<u>184,427</u>	<u>455,290</u>	<u>1,141</u>
Noncurrent liabilities - notes payable	<u>2,095,000</u>	<u>802,526</u>	<u>2,897,526</u>	<u>-</u>
Total liabilities	<u>2,365,863</u>	<u>986,953</u>	<u>3,352,816</u>	<u>1,141</u>
NET ASSETS				
Investment in capital assets, net of related debt	1,945,646	1,535,759	3,481,405	352,003
Restricted for:				
Debt service	983,012	-	983,012	-
Capital projects	200,433	-	200,433	-
Unrestricted	<u>1,178,621</u>	<u>211,276</u>	<u>1,389,897</u>	<u>306,743</u>
Total net assets	<u>\$ 4,307,712</u>	<u>\$ 1,747,035</u>	<u>\$ 6,054,747</u>	<u>\$ 658,746</u>

See notes to the financial statements

Village of Middleville

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - *proprietary funds***

Year ended December 31, 2006

	<i>Business-type activities</i>			<i>Governmental activities</i>
	<i>Enterprise funds</i>			<i>Internal service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
OPERATING REVENUES				
Charges for services:				
Utility charges	\$ 349,184	\$ 238,343	\$ 587,527	\$ -
Equipment rental	-	-	-	110,194
Total operating revenues	<u>349,184</u>	<u>238,343</u>	<u>587,527</u>	<u>110,194</u>
OPERATING EXPENSES				
Personnel costs	37,220	70,340	107,560	27,168
Contracted services	210,602	29,735	240,337	-
Supplies	9,107	12,727	21,834	32,515
Utilities	31,442	25,977	57,419	4,178
Internal charges	15,884	26,022	41,906	-
Miscellaneous	49	3,672	3,721	462
Depreciation	<u>112,632</u>	<u>39,807</u>	<u>152,439</u>	<u>32,643</u>
Total operating expenses	<u>416,936</u>	<u>208,280</u>	<u>625,216</u>	<u>96,966</u>
Operating income (loss)	<u>(67,752)</u>	<u>30,063</u>	<u>(37,689)</u>	<u>13,228</u>
NONOPERATING REVENUES (EXPENSES)				
Debt retirement charges	169,978	-	169,978	-
Connection fees	53,854	10,419	64,273	-
Special assessment interest	28,456	-	28,456	-
State grants	26,537	142,525	169,062	-
Interest revenue	81,492	15,586	97,078	12,187
Interest expense	<u>(96,650)</u>	<u>(6,600)</u>	<u>(103,250)</u>	<u>-</u>
Total nonoperating revenues	<u>263,667</u>	<u>161,930</u>	<u>425,597</u>	<u>12,187</u>
CHANGE IN NET ASSETS	<u>195,915</u>	<u>191,993</u>	<u>387,908</u>	<u>25,415</u>
NET ASSETS - BEGINNING	<u>4,111,797</u>	<u>1,555,042</u>	<u>5,666,839</u>	<u>633,331</u>
NET ASSETS - ENDING	<u>\$ 4,307,712</u>	<u>\$ 1,747,035</u>	<u>\$ 6,054,747</u>	<u>\$ 658,746</u>

See notes to the financial statements

Village of Middleville
STATEMENT OF CASH FLOWS - proprietary funds
Year ended December 31, 2006

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 341,488	\$ 219,837	\$ 561,325	\$ 110,194
Payments to vendors and suppliers	(238,098)	(61,375)	(299,473)	(38,347)
Payments to employees	(37,220)	(70,340)	(107,560)	(27,168)
Internal activity - payments to other funds	(15,884)	(26,022)	(41,906)	-
Net cash provided by operating activities	50,286	62,100	112,386	44,679
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Increase in due from other funds	(307,083)	-	(307,083)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Debt retirement charges	169,978	-	169,978	-
Connection fees	53,854	10,419	64,273	-
Special assessment principal collections	56,498	-	56,498	-
Special assessment interest	28,456	-	28,456	-
Proceeds from issuance of capital debt	-	812,526	-	-
State grants	26,537	142,525	-	-
Acquisition of capital assets	(43,139)	(1,172,664)	(1,215,803)	(17,769)
Principal payments on capital debt	(205,000)	-	(205,000)	-
Interest payments on capital debt	(90,408)	-	(90,408)	-
Net cash used in capital and related financing activities	(3,224)	(207,194)	(1,192,006)	(17,769)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	81,492	15,586	97,078	12,187
NET INCREASE (DECREASE) IN CASH	(178,529)	(129,508)	(1,289,625)	39,097
CASH - BEGINNING (including \$664,966 in restricted accounts)	1,654,068	454,184	2,108,252	268,787
CASH - ENDING (including \$708,927 in restricted accounts)	\$ 1,475,539	\$ 324,676	\$ 818,627	\$ 307,884

See notes to the financial statements

Village of Middleville

STATEMENT OF CASH FLOWS - proprietary funds (Continued)

Year ended December 31, 2006

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
Noncash capital and related financing activities:				
Acquisition of capital assets	\$ (43,139)	\$ (1,320,740)	\$ (1,363,879)	\$ (17,769)
Less increase in payables	<u>-</u>	<u>148,076</u>	<u>148,076</u>	<u>-</u>
Net cash used	<u>\$ (43,139)</u>	<u>\$ (1,172,664)</u>	<u>\$ (1,215,803)</u>	<u>\$ (17,769)</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (67,752)	\$ 30,063	\$ (37,689)	\$ 13,228
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	112,632	39,807	152,439	32,643
Increase in receivables	(7,696)	(18,506)	(26,202)	-
Increase (decrease) in payables	<u>13,102</u>	<u>10,736</u>	<u>23,838</u>	<u>(1,192)</u>
Net cash provided by operating activities	<u>\$ 50,286</u>	<u>\$ 62,100</u>	<u>\$ 112,386</u>	<u>\$ 44,679</u>

See notes to the financial statements

Village of Middleville
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Village of Middleville, Michigan (the Village), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

a) Reporting entity:

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The discretely-presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the Village.

Discretely-presented component units:

Local Development Finance Authority and Downtown Development Authority

Each component units' governing body is appointed by the Village Council and their debt remains with the Village. Separate financial statements for the component units have not been issued as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of each component unit.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Village of Middleville
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (Continued):

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for the use of motor fuel taxes, which are earmarked by state statute for major street repairs and improvements.

The Village reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the Village's sewage collection systems and treatment plant.

The Water Fund accounts for the activities of the Village's water distribution and treatment system.

Additionally, the Village reports the following fund type:

The Motor Vehicle Equipment Fund, an internal service fund, accounts for the financing of services provided to other departments or agencies of the Village on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector standards.

Village of Middleville
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash consists of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible.

iii) Deferred charges - Certain payments in connection with obtaining long-term financing have been deferred and are being amortized over the life of the related debt using the straight-line method.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer and water systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets of government activities either retroactively to June 15, 1980, or prospectively. The Village has elected to account for its infrastructure assets prospectively, beginning January 1, 2005.

Village of Middleville
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (Continued):

iv) Capital assets (continued) - Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 - 40 years
Buildings and improvements	20 - 40 years
Equipment	3 - 20 years
Sewage disposal system	50 - 70 years

v) Compensated absences - The employment policies for accumulation of earned, but unused, vacation and sick leave benefits are as follows:

Vacation time is earned in varying amounts depending upon years of service. Employees may accumulate and carry over a maximum of fifty percent of earned vacation as approved by the Village Manager. Upon termination, employees are not paid for unused vacation time.

Employees are granted six paid sick days per year. Unused sick time may be accumulated and added to the following year so that an employee may accumulate up to a maximum of twelve sick days. Upon termination, employees are not paid for unused sick time.

Compensated absence liabilities have not been recorded because these benefits are not vested.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vii) Property tax revenue recognition - Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before July 31, after which time the bill becomes delinquent and penalties and interest may be assessed by the Village. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Village levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Village's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

Village of Middleville
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued):

Excess of expenditures over appropriations in budgeted funds - The following schedule sets forth significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	General government	Building and grounds	\$ 16,000	\$ 24,606	\$ 8,606
		Tax tribunal refunds	-	143,430	143,430
	Public works	Public works department	78,177	144,955	66,778
	Capital outlay	Capital outlay	20,000	29,629	9,629

Compliance matter - The Village budgeted for a deficit in its Major Street Fund, which is a violation of Public Act 2 of 1968.

NOTE 3 - CASH:

At December 31, 2006, cash is classified in the accompanying financial statements as follows:

Statement of net assets:

Primary government:

Cash	\$ 1,550,709
Restricted cash	708,927
Component units - cash	<u>234,711</u>

Total \$ 2,494,347

At December 31, 2006, cash consists of the following:

Cash on hand	\$ 250
Deposits with financial institutions	<u>2,494,097</u>
Total	<u>\$ 2,494,347</u>

Deposits with financial institutions:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Village's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Village will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. At December 31, 2006, \$2,416,574 of the Village's bank balances of \$2,516,574 was exposed to custodial credit risk because it was uninsured. The Village believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Village of Middleville
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH (Continued):

The Village maintains a pooled cash account for all of its funds and its component units. Due to the use of the pooled deposit, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component units. The insured portion of the bank balance, \$100,000, has been allocated entirely to the primary government.

NOTE 4 - RECEIVABLES:

At December 31, 2006, the receivables of the Village's funds were as follows:

	<u>Accounts</u>	<u>Property taxes</u>	<u>Inter governmental</u>	<u>Special assessments</u>	<u>Totals</u>
Governmental activities:					
General Fund	\$ 33,767	\$ 80,984	\$ 98,232	\$ -	\$ 212,983
Major Street Fund	-	-	20,224	-	20,224
Other Nonmajor Funds	-	-	7,617	-	7,617
Total governmental activities	<u>\$ 33,767</u>	<u>\$ 80,984</u>	<u>\$ 126,073</u>	<u>\$ -</u>	<u>\$ 240,824</u>
Business-type activities:					
Sewer Fund	\$ 126,411	\$ -	\$ 200,433	\$ 298,463	\$ 625,307
Water Fund	61,027	-	-	-	61,027
Total business-type activities	<u>\$ 187,438</u>	<u>\$ -</u>	<u>\$ 200,433</u>	<u>\$ 298,463</u>	<u>\$ 686,334</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 241,963</u>	<u>\$ 241,963</u>

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 37,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,500</u>
Capital assets being depreciated:				
Land improvements	44,918	-	-	44,918
Buildings	630,608	-	-	630,608
Furniture, fixtures, and equipment	208,411	17,769	-	226,180
Infrastructure	605,690	827,520	-	1,433,210
Vehicles	<u>262,485</u>	<u>-</u>	<u>-</u>	<u>262,485</u>
Subtotal	<u>1,752,112</u>	<u>845,289</u>	<u>-</u>	<u>2,597,401</u>

Village of Middleville
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Capital asset activity for the year ended December 31, 2006, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities (continued):				
Less accumulated depreciation for:				
Land improvements	\$ 10,985	\$ 2,246	\$ -	\$ 13,231
Buildings	158,962	17,115	-	176,077
Furniture, fixtures, and equipment	74,752	15,173	-	89,925
Infrastructure	2,742	16,866	-	19,608
Vehicles	240,056	12,021	-	252,077
Subtotal	487,497	63,421	-	550,918
Total capital assets being depreciated, net	1,264,615	781,868	-	2,046,483
Governmental activities capital assets, net	<u>\$ 1,302,115</u>	<u>\$ 781,868</u>	<u>\$ -</u>	<u>\$ 2,083,983</u>
Business-type activities:				
Capital assets not being depreciated :				
Land	\$ 43,130	\$ 100,019	\$ -	\$ 143,149
Construction in progress	-	1,011,118	-	1,011,118
Total capital assets not being depreciated	43,130	1,111,137	-	1,154,267
Capital assets being depreciated:				
Sewer system	5,412,775	43,139	-	5,455,914
Water system	1,487,116	83,160	-	1,570,276
Equipment	242,343	126,442	-	368,785
Subtotal	7,142,234	252,741	-	7,394,975
Less accumulated depreciation for:				
Sewer system	1,162,111	112,632	-	1,274,743
Water system	460,422	31,767	-	492,189
Equipment	211,034	8,040	-	219,074
Subtotal	1,833,567	152,439	-	1,986,006
Total capital assets being depreciated, net	5,308,667	100,302	-	5,408,969
Business-type activities capital assets, net	<u>\$ 5,351,797</u>	<u>\$ 1,211,439</u>	<u>\$ -</u>	<u>\$ 6,563,236</u>

Village of Middleville
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to governmental activities as follows:

General government	\$ 13,912
Public works	16,866
Depreciation on capital assets held by internal service fund	<u>32,643</u>
Total governmental activities	<u>\$ 63,421</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At December 31, 2006, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
Sewer	\$ 307,083	General	\$ 5,212
		Major Street	<u>301,871</u>
			<u>\$ 307,083</u>

The interfund balances represent temporary cash flow assistance provided by the Sewer Fund to the General Fund and Major Street Fund.

The interfund transfer for the year ended December 31, 2006, is as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Local Street	<u>\$ 100,000</u>	General	<u>\$ 100,000</u>

The transfer to the Local Street Fund represents support for street preservation and repairs.

NOTE 7 - ADVANCE TO COMPONENT UNIT:

The General Fund advanced \$330,000 to the Local Development Finance Authority, a component unit of the Village, to finance a portion of the cost of road reconstruction. The agreement between the two entities requires annual payments of \$28,182, plus interest at 6.5%, through 2014. The balance at December 31, 2006, is \$225,405.

Village of Middleville
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - PAYABLES:

At December 31, 2006, the payables of the Village's funds were as follows:

	<u>Accounts</u>	<u>Interest</u>	<u>Totals</u>
Governmental activities:			
General Fund	\$ 48,757	\$ -	\$ 48,757
Major Street Fund	26,316	-	26,316
Nonmajor governmental funds	657	-	657
Internal Service Fund	<u>1,141</u>	<u>-</u>	<u>1,141</u>
Total governmental activities	<u>\$ 76,871</u>	<u>\$ -</u>	<u>\$ 76,871</u>
Business-type activities:			
Sewer Fund	\$ 28,663	\$ 17,200	\$ 45,863
Water Fund	<u>167,827</u>	<u>6,600</u>	<u>174,427</u>
Total business-type activities	<u>\$ 196,490</u>	<u>\$ 23,800</u>	<u>\$ 220,290</u>

NOTE 9 - LONG-TERM LIABILITIES:

At December 31, 2006, long-term liabilities are comprised of the following individual issues:

Business-type activities:

Notes payable:

\$1,125,000 1999 Barry County contract payable - payable in annual installments ranging from \$50,000 to \$75,000, plus interest at 3.9% to 6.9%; final payment due October 2018	\$ 800,000
\$1,870,000 2003 Barry County contract payable - payable in annual installments ranging from \$35,000 to \$220,000, plus interest at 2.0% to 3.8%; final payment due November 2014	1,520,000
\$205,000 2006 Barry County contract payable - payable in annual installments ranging from \$10,000 to \$15,000, plus interest at 2.125%; final payment due April 2026	205,000
\$1,040,000 2007 Barry County contract payable - payable in annual installments ranging from \$40,000 to \$65,000, plus interest at 2.125%; final payment due April 2027	<u>607,526</u>
Total primary government long-term liabilities	<u>\$ 3,132,526</u>

Village of Middleville
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - LONG-TERM LIABILITIES (Continued):

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Business-type activities:					
1999 Contract payable	\$ 850,000	\$ -	\$ (50,000)	\$ 800,000	\$ 50,000
2003 Contract payable	1,675,000	-	(155,000)	1,520,000	175,000
2006 Contract payable	-	205,000	-	205,000	10,000
2006 Contract payable	-	607,526	-	607,526	-
Total notes payable	<u>\$ 2,525,000</u>	<u>\$ 812,526</u>	<u>\$ (205,000)</u>	<u>\$ 3,132,526</u>	<u>\$ 235,000</u>

At December 31, 2006, debt service requirements were as follows:

<u>Year ended</u>	<u>Business-type activities</u>	
<u>December 31:</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 235,000	\$ 101,998
2008	253,366	95,776
2009	276,287	88,696
2010	271,287	80,638
2011	291,287	71,956
2012 - 2016	1,185,198	198,364
2017 - 2021	354,803	52,230
2022 - 2026	227,329	18,862
2027	37,969	808
	<u>\$ 3,132,526</u>	<u>\$ 709,328</u>

All debt is secured by the full faith and credit of the Village.

NOTE 10 - DEFINED BENEFIT PENSION PLAN:

Plan description:

The Village's defined benefit pension plan provides retirement benefits to qualified employees and their beneficiaries. The Village's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the Village. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Village of Middleville
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLAN (Continued):

Funding policy:

Contribution rates for each participating employer and its covered employees are established, and may be amended, by each participating unit. The contribution rates are determined based on the benefit structure established by each employer. Covered employees are not required to contribute to the plan. Participating employers are required to contribute amounts necessary to finance the coverage of their employees through periodic contributions at actuarially-determined rates. Administrative costs of the plan are financed through investment earnings.

Annual pension cost:

For the year ended December 31, 2006, the Village's annual pension cost of \$11,656 for its defined benefit pension plan was equal to the required and actual contributions. Contributions have not been required for the past three years. Significant actuarial assumptions used included a) 8% investment rate of return, net of administrative expenses, b) projected salary increases of 4.5% per year, and c) no cost of living adjustments. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a closed period of 30 years as a level percentage of payroll.

Three-year trend information:

For the years ended December 31, 2006 and 2005, the Village contributed \$11,656 and \$10,087 respectively to the plan. For the year ended December 31, 2004, the Village was not required to make a contribution into the plan.

NOTE 11 - CLAIMS ARISING FROM RISKS OF LOSS:

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village has joined together with other local governmental units in the state to form the Michigan Municipal League Insurance Pool (MML), a public entity risk pool currently operating as a common risk management and insurance program for local governmental units within the state. The Village pays an annual premium to MML for all of its insurance coverage's. MML is self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$2,000,000 for each insured event.

NOTE 12 - ECONOMIC DEPENDENCY:

For the year ended December 31, 2006, the Village received approximately 21% of its property tax revenues and 12% of its utility revenues from one industrial property owner.

NOTE 13 - ACCUMULATED DEFICITS:

The Major Street Fund has an accumulated deficit in the amount of \$307,963. The deficit is the result of revenues inadequate to cover the costs of street projects in 2006. The deficit will be eliminated through the collection of a new street millage in the future.

The Middleville Downtown Development Authority, a discretely-presented component unit, has an accumulated deficit in the amount of \$135,795. The deficit is the result of revenues inadequate to cover the costs of a street reconstruction project in 2002. The deficit will be eliminated through the collection of property taxes in subsequent years.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Middleville**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended December 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 920,500	\$ 980,361	\$ 748,277	\$ (232,084)
State grants	220,000	228,322	265,677	37,355
Charges for services	35,300	35,300	31,700	(3,600)
Licenses and permits	2,000	2,000	1,300	(700)
Interest and rentals	8,695	8,695	12,797	4,102
Other	48,400	48,400	8,533	(39,867)
Total revenues	<u>1,234,895</u>	<u>1,303,078</u>	<u>1,068,284</u>	<u>(234,794)</u>
EXPENDITURES				
Legislative	<u>34,959</u>	<u>40,170</u>	<u>20,164</u>	<u>20,006</u>
General government:				
Manager	55,274	55,279	56,787	(1,508)
Finance Director	41,583	41,583	35,516	6,067
Professional fees	49,000	49,000	47,807	1,193
Clerk	25,537	27,752	17,741	10,011
Treasurer	7,290	7,290	3,413	3,877
Building and grounds	16,000	16,000	24,606	(8,606)
Tax tribunal refunds	-	-	143,430	(143,430)
Nondepartmental	<u>141,717</u>	<u>150,167</u>	<u>103,146</u>	<u>47,021</u>
Total general government	<u>336,401</u>	<u>347,071</u>	<u>432,446</u>	<u>(85,375)</u>
Public safety:				
Police protection	266,450	266,700	241,084	25,616
Crossing guards	<u>8,711</u>	<u>8,711</u>	<u>3,449</u>	<u>5,262</u>
Total public safety	<u>275,161</u>	<u>275,411</u>	<u>244,533</u>	<u>30,878</u>
Public works:				
Public works department	75,357	78,177	144,955	(66,778)
Street lighting	29,500	32,881	31,551	1,330
Environmental control	41,750	42,601	41,260	1,341
Hydrant rental	46,750	46,750	46,750	-
Sidewalks	<u>52,956</u>	<u>54,266</u>	<u>25,407</u>	<u>28,859</u>
Total public works	<u>246,313</u>	<u>254,675</u>	<u>289,923</u>	<u>(35,248)</u>

Village of Middleville**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended December 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	<u>\$ 97,080</u>	<u>\$ 107,543</u>	<u>\$ 90,172</u>	<u>\$ 17,371</u>
Culture and recreation	<u>57,605</u>	<u>63,402</u>	<u>51,809</u>	<u>11,593</u>
Capital outlay	<u>20,000</u>	<u>20,000</u>	<u>29,629</u>	<u>(9,629)</u>
Total expenditures	<u>1,067,519</u>	<u>1,108,272</u>	<u>1,158,676</u>	<u>(50,404)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	167,376	194,806	(90,392)	(285,198)
OTHER FINANCING USES				
Transfer to Local Street Fund	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	67,376	94,806	(190,392)	(285,198)
FUND BALANCES - BEGINNING	<u>575,061</u>	<u>575,061</u>	<u>575,061</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 642,437</u>	<u>\$ 669,867</u>	<u>\$ 384,669</u>	<u>\$ (285,198)</u>

Village of Middleville**BUDGETARY COMPARISON SCHEDULE - Major Street Fund**

Year ended December 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants:				
Michigan Transportation Fund	\$ 144,000	\$ 144,000	\$ 134,894	\$ 9,106
Michigan Transportation Economic Development Fund	911,000	911,000	490,818	420,182
Interest	<u>5,900</u>	<u>5,900</u>	<u>-</u>	<u>5,900</u>
Total revenues	<u>1,060,900</u>	<u>1,060,900</u>	<u>625,712</u>	<u>(435,188)</u>
EXPENDITURES				
Public works:				
Preservation	921,000	966,000	864,115	101,885
Routine maintenance	52,497	64,322	27,838	36,484
Winter maintenance	27,797	44,961	36,601	8,360
Traffic services	<u>11,918</u>	<u>15,262</u>	<u>8,831</u>	<u>6,431</u>
Total expenditures	<u>1,013,212</u>	<u>1,090,545</u>	<u>937,385</u>	<u>153,160</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	47,688	(29,645)	(311,673)	(282,028)
OTHER FINANCING USES				
Transfer to Local Street Fund	<u>(24,000)</u>	<u>(24,000)</u>	<u>-</u>	<u>24,000</u>
NET CHANGE IN FUND BALANCES	23,688	(53,645)	(311,673)	(258,028)
FUND BALANCES - BEGINNING	<u>3,710</u>	<u>3,710</u>	<u>3,710</u>	<u>-</u>
FUND BALANCES (DEFICIT) - ENDING	<u>\$ 27,398</u>	<u>\$ (49,935)</u>	<u>\$ (307,963)</u>	<u>\$ (258,028)</u>

Village of Middleville**ANALYSIS OF FUNDING PROGRESS - Employee Retirement System****(Municipal Employees' Retirement System of Michigan)**

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated.

Actuarial valuation date December 31,	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	Funded ratio (a)/(b)	(Over- funded) AAL (b-a)	Covered payroll (c)	(Over- funded) AAL as a percentage of covered payroll ((b-a)/c)
1996	\$ 407,942	\$ 304,495	134%	\$ (103,447)	\$ 149,025	-69%
1997	449,493	353,041	127%	(96,452)	151,177	-64%
1998	499,700	436,073	115%	(63,627)	158,269	-40%
1999	568,258	379,920	150%	(188,338)	191,809	-98%
2000	616,154	510,260	121%	(105,894)	255,306	-41%
2001	651,394	578,113	113%	(73,281)	264,364	-28%
2002	663,155	607,675	109%	(55,480)	273,594	-20%
2003	705,803	643,480	110%	(62,323)	265,133	-24%
2004	742,540	675,163	110%	(67,377)	309,293	-22%
2005	793,419	736,086	108%	(57,333)	311,158	-18%

SUPPLEMENTARY DATA

Village of Middleville**COMBINING BALANCE SHEET - nonmajor governmental funds**

December 31, 2006

	<u>Special revenue funds</u>		<u>Total other</u>
	<u>Local</u>	<u>Law</u>	<u>governmental</u>
	<u>Street</u>	<u>Enforcement</u>	<u>funds</u>
ASSETS			
Cash	\$ 137,597	\$ 13,690	\$ 151,287
Receivables	<u>7,617</u>	<u>-</u>	<u>7,617</u>
Total assets	<u>\$ 145,214</u>	<u>\$ 13,690</u>	<u>\$ 158,904</u>
LIABILITIES AND FUND BALANCES			
Liabilities - payables	\$ 657	\$ -	\$ 657
Fund balances - unreserved, undesignated	<u>144,557</u>	<u>13,690</u>	<u>158,247</u>
Total liabilities and fund balances	<u>\$ 145,214</u>	<u>\$ 13,690</u>	<u>\$ 158,904</u>

Village of Middleville**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - *nonmajor governmental funds****Year ended December 31, 2006*

	<u>Special revenue funds</u>		<u>Total other governmental funds</u>
	<u>Local Street</u>	<u>Law Enforcement</u>	
REVENUES			
State grant - Michigan Transportation Fund	\$ 48,631	\$ -	\$ 48,631
Interest	<u>5,068</u>	<u>644</u>	<u>5,712</u>
Total revenues	53,699	644	54,343
EXPENDITURES			
Public works	<u>58,180</u>	<u>-</u>	<u>58,180</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,481)	644	(3,837)
OTHER FINANCING SOURCES			
Transfer from General Fund	<u>100,000</u>	<u>-</u>	<u>100,000</u>
NET CHANGE IN FUND BALANCES	95,519	644	96,163
FUND BALANCES - BEGINNING	<u>49,038</u>	<u>13,046</u>	<u>62,084</u>
FUND BALANCES - ENDING	<u>\$ 144,557</u>	<u>\$ 13,690</u>	<u>\$ 158,247</u>

Village of Middleville**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS****\$1,125,000 1999 BARRY COUNTY CONTRACT PAYABLE***December 31, 2006*

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>April 1</u>	<u>October 1</u>			
2007	\$ 18,325	\$ 18,325	10/1/07	\$ 50,000	\$ 86,650
2008	17,288	17,288	10/1/08	50,000	84,576
2009	16,225	16,225	10/1/09	50,000	82,450
2010	15,150	15,150	10/1/10	50,000	80,300
2011	14,062	14,062	10/1/11	75,000	103,124
2012	12,394	12,394	10/1/12	75,000	99,788
2013	10,687	10,687	10/1/13	75,000	96,374
2014	8,944	8,944	10/1/14	75,000	92,888
2015	7,181	7,181	10/1/15	75,000	89,362
2016	5,400	5,400	10/1/16	75,000	85,800
2017	3,600	3,600	10/1/17	75,000	82,200
2018	1,800	1,800	10/1/18	75,000	78,600
	<u>\$ 131,056</u>	<u>\$ 131,056</u>		<u>\$ 800,000</u>	<u>\$ 1,062,112</u>

Village of Middleville**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS****\$1,870,000 2003 BARRY COUNTY CONTRACT PAYABLE***December 31, 2006*

<i><u>Fiscal period</u></i>	<i><u>Interest requirements</u></i>		<i><u>Maturity date</u></i>	<i><u>Principal</u></i>	<i><u>Total requirements</u></i>
	<i><u>May 1</u></i>	<i><u>November 1</u></i>			
2007	\$ 24,041	\$ 24,041	11/1/07	\$ 175,000	\$ 223,082
2008	22,073	22,073	11/1/08	170,000	214,146
2009	19,948	19,948	11/1/09	190,000	229,896
2010	17,383	17,383	11/1/10	185,000	219,766
2011	14,515	14,515	11/1/11	180,000	209,030
2012	11,478	11,478	11/1/12	205,000	227,956
2013	7,787	7,787	11/1/13	195,000	210,574
2014	<u>4,180</u>	<u>4,180</u>	11/1/14	<u>220,000</u>	<u>228,360</u>
	<u>\$ 121,405</u>	<u>\$ 121,405</u>		<u>\$ 1,520,000</u>	<u>\$ 1,762,810</u>

Village of Middleville**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS****\$205,000 2006 BARRY COUNTY WATER CONTRACT PAYABLE***December 31, 2006*

<i>Fiscal period</i>	<i>Interest requirements</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirements</i>
	<i>April 1</i>	<i>October 1</i>			
2007	\$ 2,178	\$ 2,178	4/1/07	\$ 10,000	\$ 14,356
2008	2,072	2,072	4/1/08	10,000	14,144
2009	1,968	1,968	4/1/09	10,000	13,936
2010	1,859	1,859	4/1/10	10,000	13,718
2011	1,753	1,753	4/1/11	10,000	13,506
2012	1,647	1,647	4/1/12	10,000	13,294
2013	1,541	1,541	4/1/13	10,000	13,082
2014	1,434	1,434	4/1/14	10,000	12,868
2015	1,328	1,328	4/1/15	10,000	12,656
2016	1,222	1,222	4/1/16	10,000	12,444
2017	1,116	1,116	4/1/17	10,000	12,232
2018	1,009	1,009	4/1/18	10,000	12,018
2019	903	903	4/1/19	10,000	11,806
2020	797	797	4/1/20	10,000	11,594
2021	691	691	4/1/21	10,000	11,382
2022	584	584	4/1/22	10,000	11,168
2023	478	478	4/1/23	10,000	10,956
2024	372	372	4/1/24	10,000	10,744
2025	266	266	4/1/25	10,000	10,532
2026	159	159	4/1/26	15,000	15,318
	<u>\$ 23,377</u>	<u>\$ 23,377</u>		<u>\$ 205,000</u>	<u>\$ 251,754</u>

Village of Middleville**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS****\$1,040,000 2006 BARRY COUNTY WATER CONTRACT PAYABLE**

December 31, 2006

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>April 1</u>	<u>October 1</u>			
2007	\$ 6,455	\$ 6,455	4/1/07	\$ -	\$ 12,910
2008	6,455	6,455	4/1/08	23,366	36,276
2009	6,207	6,207	4/1/09	26,287	38,701
2010	5,927	5,927	4/1/10	26,287	38,141
2011	5,648	5,648	4/1/11	26,287	37,583
2012	5,369	5,369	4/1/12	26,287	37,025
2013	5,090	5,090	4/1/13	26,287	36,467
2014	4,810	4,810	4/1/14	29,208	38,828
2015	4,500	4,500	4/1/15	29,208	38,208
2016	4,190	4,190	4/1/16	29,208	37,588
2017	3,879	3,879	4/1/17	29,208	36,966
2018	3,569	3,569	4/1/18	29,208	36,346
2019	3,258	3,258	4/1/19	32,129	38,645
2020	2,917	2,917	4/1/20	32,129	37,963
2021	2,576	2,576	4/1/21	32,129	37,281
2022	2,234	2,234	4/1/22	32,129	36,597
2023	1,893	1,893	4/1/23	35,050	38,836
2024	1,521	1,521	4/1/24	35,050	38,092
2025	1,148	1,148	4/1/25	35,050	37,346
2026	776	776	4/1/26	35,050	36,602
2027	404	404	4/1/27	37,969	38,777
	<u>\$ 78,826</u>	<u>\$ 78,826</u>		<u>\$ 607,526</u>	<u>\$ 765,178</u>

Village of Middleville

DOWNTOWN DEVELOPMENT AUTHORITY

SCHEDULE OF ADVANCE RETIREMENT AND ANNUAL INTEREST REQUIREMENTS

\$310,387 2002 LONG-TERM ADVANCE FROM GENERAL FUND

December 31, 2006

<i><u>Fiscal period</u></i>	<i><u>Interest July 1</u></i>	<i><u>Maturity date</u></i>	<i><u>Principal</u></i>	<i><u>Total requirements</u></i>
2007	\$ 10,596	7/1/07	\$ 28,182	\$ 38,778
2008	9,272	7/1/08	28,182	37,454
2009	7,947	7/1/09	28,182	36,129
2010	6,623	7/1/10	28,182	34,805
2011	5,298	7/1/11	28,182	33,480
2012	3,974	7/1/12	28,182	32,156
2013	2,649	7/1/13	28,182	30,831
2014	<u>1,325</u>	7/1/14	<u>28,131</u>	<u>29,456</u>
	<u>\$ 47,684</u>		<u>\$ 225,405</u>	<u>\$ 273,089</u>

**Members of the Village Council
Village of Middleville, Michigan**

In planning and performing our audit of the financial statements of the Village of Middleville as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Middleville's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- The reconciled bank balance did not agree to the respective general ledger control accounts on a monthly basis.
- Enterprise fund receivable balances for utility charges were not reconciled to their respective general ledger control accounts in a timely manner.
- Special assessment receivable balances in the Sewer Fund were not reconciled to the general ledger control accounts in a timely manner.
- The Village does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

**Members of the Village Council
Village of Middleville, Michigan
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This communication is intended solely for the information and use of management, the Village Council of the Village of Middleville, and the State of Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.

May 29, 2007